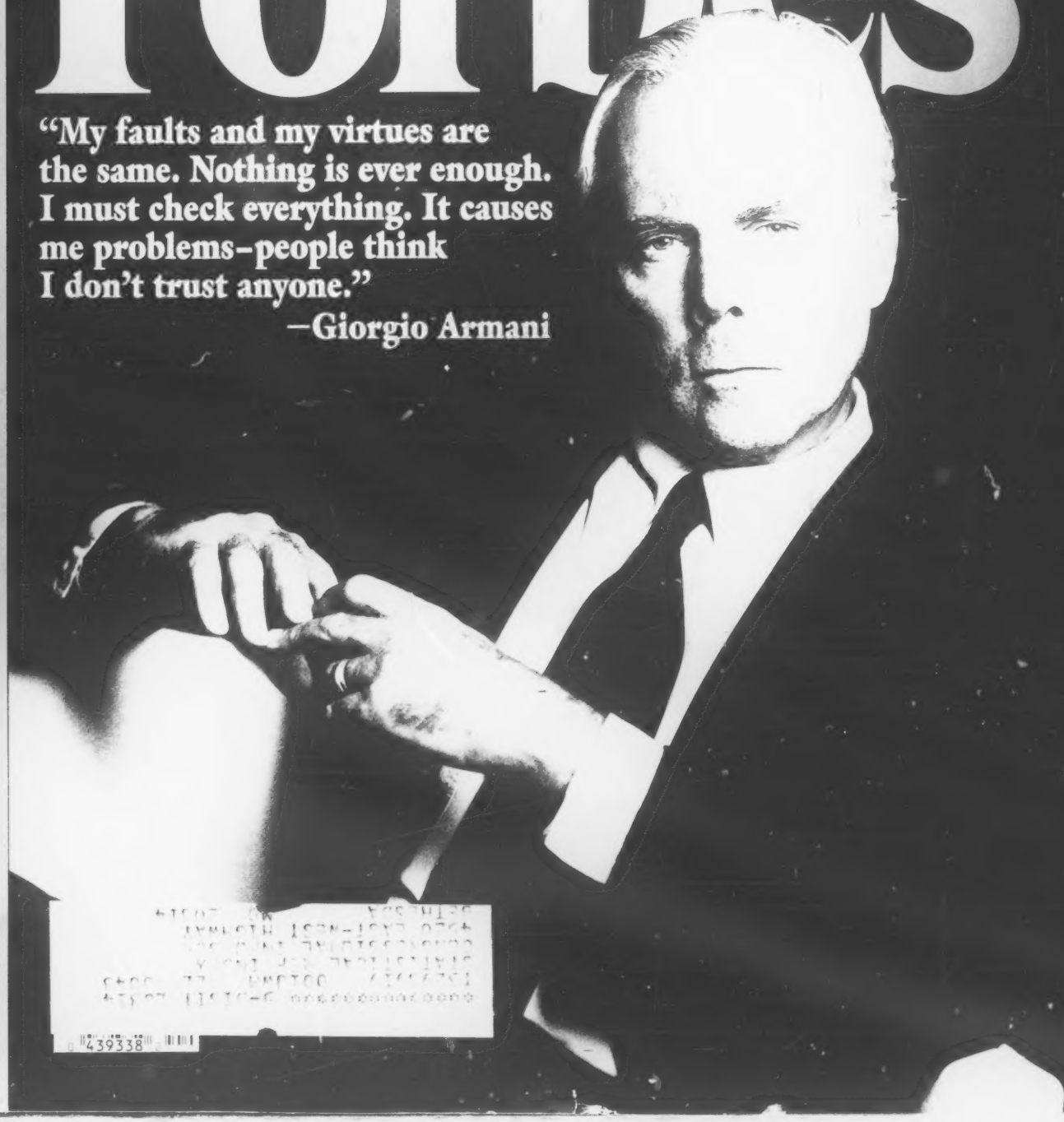
Blood in the suites—bargains in distressed hotels

October 28, 1991 Four Dollars

Forbes



"My faults and my virtues are the same. Nothing is ever enough. I must check everything. It causes me problems–people think I don't trust anyone."

–Giorgio Armani

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Cover photo by Aldo Fallai

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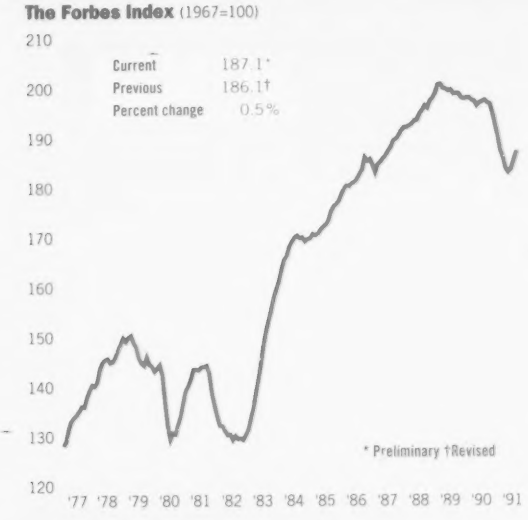
THE FORBES INDEX

BY TIMOTHY DODMAN



With growing deficits at the federal, state and local levels, politicians have been reluctant to cut taxes in order to spur growth. In fact, higher taxes at all three levels are helping to put a drag on consumer outlays. For the eight months through August of this year, real personal spending increased a scant 0.9%. Cost-cutting state and local governments have eliminated 87,000 jobs in the last four months, but the private sector has been expanding: Nonfarm payrolls grew by 24,000 in September. The unemployment rate fell to 6.7% from 6.8%.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-11.6%
Index of leading indicators Aug vs July	Dept of Commerce	0.0%
Trade balance 12 months ended July 1991	Dept of Commerce	-$81 bil
All-commodity producer price index Aug vs July[2]	Dept of Labor	0.3%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	-0.5%
M2 (3-month change)—annualized growth[3]	Federal Reserve	-0.1%

[1] U.S.-based manufacturers, excludes imports, as of 9/30/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

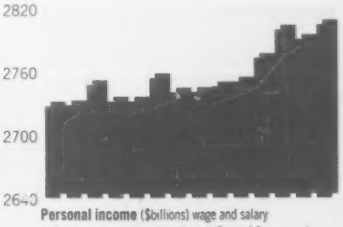
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

J A S O N D J F M A M J J A J A S O N D J F M A M J J A J A S O N D J F M A M J J A

Walter Wriston wasn't so dumb to suggest that sovereign nations don't default on their debt.

Good news at last

By Laura Jereski

AFTER YEARS of nasty surprises from their insolvent Latin American government debtors, U.S. banks are finally getting some pleasant surprises. Sounder policies in Mexico, Argentina, Venezuela and some other Latin American countries have bolstered the value of those countries' billions of dollars in outstanding debt, easing the pressure on banks holding the loans to add to their reserves.

In the rapidly growing market for Third World paper, Brazil's sovereign debt now sells for 34 cents on the dollar, up from 24 cents in January. Argentina's debt trades at around 39 cents on the dollar, up from 20 cents. Even Peru, reeling under terrorism and unstable government, has seen its debt climb to 17 cents, up from 4 cents on the dollar in January.

Mexico has become such a good risk that its restructured obligations now yield just 10%, about in line with mid-grade U.S. corporate bonds.

For the New York money center banks that have been bushwhacked by bad real estate loans, the Latin debt news is a ray of sunlight.

How bright? It depends on how bravely the banks involved bit the bullet earlier by writing down their Latin loans. But don't look for immediate earnings gains, because the higher bond values will not flow through directly to earnings.

Take an example. Manufacturers Hanover Corp.'s survival once seemed threatened by its heavy load of loans to Latin and other poor nations. Manufacturers Hanover, now in the process of merging with Chemical, has already set up reserves sufficient to cover 32% of the face value of its outstanding Latin debt, which the bank estimates is enough to cover 90% of the problem part of the portfolio. Those reserves may now be adequate, letting the bank set aside bigger reserves to cover bad real estate loans and leveraged transactions.

A big winner is archconservative J.P. Morgan & Co., which created reserves covering 65% of its Latin debt. In the second quarter, Morgan was able to apply some $560 million (about $3 per Morgan share) from loan-loss reserves to its general reserves to cover highly leveraged transactions and other loan losses.

That indirectly increases Morgan's future earning power because it means the bank will be able to get by with fewer additions to reserves in the future—loan-loss reserves being a direct deduction from earnings.

Besides Morgan, other likely winners are Bankers Trust and Chemical. But many banks, like Citibank, are less fortunate. Securities & Exchange Commission rules prevent banks from booking interest income on Latin debt that they haven't written down to market. Instead the interest goes to reduce the principal. Unlike its brethren, J.P. Morgan wrote down the value of its Brazilian debt to market value, allowing it to take $14 million in interest directly into earnings.

To be sure, the price recovery for Latin debt remains fragile. The market probably can't absorb huge selling by banks that want out. This summer a worried New York trader visited Japanese banks, whose mammoth $40 billion or so in Latin debt is concentrated in Brazil and Argentina. He was reassured that improved prices would not tempt them to sell.

Still, the market for Third World sovereign debt is becoming more liquid every day. Some $200 billion worth of Latin debt issues will trade this year, twice last year's total and more than ten times the volume of five years ago. The most actively traded part of the market are the so-called Brady bonds—Mexican and Venezuelan bonds issued to help those countries restructure.

In a sense the whole affair is something of a vindication for retired Citicorp Chairman Walter Wriston. It was during his watch that his and other big U.S. banks lent heavily to the developing nations as a means of recycling Arab petrodollar surpluses. When critics questioned the wisdom of such lending, Wriston suggested: Sovereign nations don't default. Maybe Wriston was right after all.

Will bank real estate lending have as happy an outcome? Don't bet on it. Unlike sovereign debt that is in arrears, foreclosed real estate is costly to carry. And, adds veteran bank-stock analyst George Salem, of Prudential Securities: "Countries have taxing power, developers don't."

Rewards for caution

Company	—Latin American debt*— reserves ($bil)	face value ($bil)	Reserve coverage	Per-share effect of 10% increase in loan value
Overreserved				
Bankers Trust	$1,111	$1,543	72%	$1.13
JP Morgan	500	900	65	0.28
Chemical	698	1,094	64	0.72
Adequately reserved				
BankAmerica	934	2,196	43	0.61
First Chicago	98	239	41	0.21
Chase Manhattan	1,160	3,088	38	1.38
Manufacturers Hanover	1,136	3,604	32	2.86
Citicorp	1,600	6,600	24	1.15

*Second-quarter results. *Source: Brent Erensel of Mabon Securities Corp.*

Big winners: banks with largest loan-loss reserves against their Latin debt.

An astute auto analyst sees continuing problems for the auto industry. Even the Japanese will squirm.

The worst of times

An interview with Maryann Keller by Jerry Flint

THE AUTOMOBILE industry is in pain. Car/truck sales slumped from 16.4 million in 1986 to 12.6 million this year. Operating losses for the Big Three North American auto businesses may approach $10 billion this year. That's an average loss of a little less than $1,000 on every vehicle sold by the American companies.

How long can the bleeding continue? We put this question to Maryann Keller, a managing director of investment bankers Furman Selz and one of Wall Street's most astute analysts of the automobile industry. Her answers were not reassuring.

Keller: The private market [for automobiles] isn't showing any improvement as the year progresses. Typically, in a recession you get a tax cut. That gets consumer spending going, but this is the first time in my memory we've had tax increases accompanying a recession at the federal, state and local levels.

This vehicle market may not get much above the record 16-million-plus car/truck sales of 1986. The postwar-generation baby boom is aging. They've had their babies, they've bought their minivans.

The average transaction price today is around $17,000, and if the costs continue to rise, as they will, the industry will reflect that in pricing. People are going to adjust. They may buy fewer cars or less opulent cars.

Worse, the Japanese are making inroads into markets [luxury and midsize cars and trucks] that generate most of the profits for the American companies. Look at the new six-cylinder Toyota Camry. That's a rival of any midsize American car.

Detroit can't go on losing money indefinitely. Not even Soviet industry could accomplish that miracle.

If the industry continues to hemorrhage, some of the problems will go away. Plants close, jobs will be cut. Within a decade there will be fewer companies selling cars in the U.S.

What's the good news?

Europe. Germany has been the bright spot in Europe and General Motors is really the big winner [GM earned nearly $2 billion in Europe last year]. I think Germany is going to continue to be a reasonably good market in

Auto analyst Maryann Keller of Furman Selz **"Everything is going wrong for the Japanese. The U.S. market has become unprofitable, the Europeans are saying 'not in my backyard,' and the Japanese home market is falling now that the bubble economy has burst."**

1992. In the five eastern states of Germany, Opel [GM's German unit] outsells VW, which is quite a feat. And GM has made some very promising investments in Central Europe.

But there's no sign of recovery in Britain, which is much more important to Ford than to GM, and one of the reasons Ford is not doing well.

Why is GM Europe so successful? The product line, which is where any car company has to start, is great. The cars meet their competitors in quality and technology and are attractively styled. And GM Europe's headquarters staff is very small [only 120] and largely concerns itself with strategic investments and political issues. Bob Eaton [president of GM Europe] is not involved in pricing a car in Spain. That is the function of the operating businesses. So you don't see in GM Europe what you see in GM North America, the monolithic central bureaucracy telling guys in the operating divisions where to go and what to do.

> **Ford has no vice presidents under the age of 50 except Helen Petrauskas [for environmental and safety engineering]. Where are the leaders for the next generation? I can't name them at Ford.**

Which brings us to GM in the U.S. GM's operating loss this year will be $6 billion to $7 billion in North America. They've admitted the earliest they could be profitable here would be 1993, but I think it will probably be 1994 or 1995, unless they can perform radical surgery on their costs.

It took GM ten years to get into this predicament. Today they are redesigning parts to get man-hours out of those cars. Maybe they take an hour out here and there. But they can't take 20 hours out, and that's what they need. But 20 hours means doing all the cars from scratch.

Go back to the experience of GM Europe, which was a basket case in 1978. It took ten years to get back. Don't expect miracles at GM North America.

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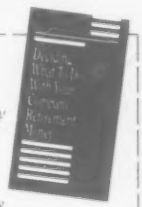

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The auto industry in pain

Company	1990 sales ($bil)	1990 net income per share	Highest annual EPS since 1985	Recent price	Yield
Chrysler	$31	$0.30	$6.25	$10.13	5.9%
Daimler-Benz	57	24.22	35.40	422.53	2.7
Fiat	51	0.63	1.03	4.22	7.0
Ford	98	1.86	10.96	29.88	5.4
General Motors	125	-4.09	7.17	37.13	4.3
Honda	25	0.53	0.70	11.76	0.9
Mazda	13	0.16	0.18	4.26	1.3
Mitsubishi	15	0.14	0.15	5.68	0.9
Nissan	36	0.29	0.29	5.21	2.0
Peugeot	32	36.48	40.63	108.89	3.9
Toyota	60	0.90	0.90	12.00	1.2
Volkswagen	46	22.03	20.38*	213.24	4.8

Sales and net income figures are converted at rate of exchange at fiscal year-end. EPS are converted at average yearly rate of exchange. *VW's 1989 EPS in deutsche marks exceeded 1990 EPS.
Sources: Annual reports; Morgan Stanley; Forbes.

Productivity is the problem?
There's also a structural problem caused in part by the loss of market share. GM factories are designed to build just one car series per line, so the company is perpetually running factories at less than optimum capacity utilization, because they have so many platforms and each plant is dedicated to a single platform. Yes, they are making progress combining platforms, but it takes a long time to get all of that ironed out.

So GM either sells more cars or shrinks.
They probably have a strategy that embodies a bit of both.

As a stock analyst, what are you recommending?
The problem with auto stocks this cycle is that they never got cheap in relation to what the earnings and dividends are likely to be.

I see this as an industry that's going to be troubled for a long time. Plagued by slow growth and competition from the Japanese, who are going to compete in bigger cars and trucks.

We've talked about GM. Ford?
Ford has one big advantage over GM: much higher levels of capacity utilization and productivity. But Ford overestimated the strength of its automobiles, especially in Europe. We can now look back and say part of its record earnings in the late 1980s came from underinvestment in R&D and in product. Now they get a chance to bring out all-new engines in the 1990s, which could give them an advantage because they will have very modern, lightweight engines. But they are paying for underinvestment right now: falling market share.

If you can believe this, Ford has no vice presidents under the age of 50 except Helen Petrauskas [for environmental and safety engineering]. Where are the leaders for the next generation? I can name them in GM. I can even name them in Chrysler. But I can't name them at Ford.

Chrysler? Best shot.
Best shot. With the new stock issue and some asset sales [Chrysler is selling 35 million new shares at 10⅛], Chrysler accesses enough money over the next year, or until the car market turns around, to do the new cars [the midsize LH models coming out in 12 months and the new Jeep next spring]. It bought time. Now it's a question of how successful those cars will be and how fast the economy rebounds. I can't tell you that. But I have to say that from the standpoint of organizational efficiency and management, Chrysler is probably the best run of the U.S. auto companies.

Do the Japanese just keep on gaining?
No. The Nineties are going to be a very painful decade for some of them. For the first time everything is going the wrong way for the Japanese. The U.S. market has become unprofitable, even for the Japanese; the Europeans are saying "not in my backyard"; and the Japanese home market is falling now that the bubble economy has burst.

When Japan's carmakers get in a bind, they just squeeze their suppliers a little harder.
It's hard to squeeze suppliers that have already been squeezed to the wall. And many Japanese auto companies are going to have to pay the price of the cheap-money binge of the late 1980s. Right now they are having to modify some of their investment horizons to repay their debt issues.

If the total North American market doesn't grow much, I can see the Japanese companies reaching above 35% market share. That [extra volume] didn't matter as much to GM, Ford or Chrysler when the Japanese were selling 1.5 million subcompact cars. It matters more that the Japanese are going to sell 1.5 million large and luxury cars that compete against the breadbasket of the American auto companies, or if Toyota actually introduces a large pickup truck as well as continuing to dominate the low end of the market. That's a real threat.

One thing that I think we're going to see is a concerted Japanese effort to improve fuel efficiency, no matter what is legislated by Congress. It's much easier for them; with gas at $4 a gallon, the Japanese consumer is willing to pay for expensive technology to save fuel, so it's a much less risky investment. Now American quality is close to the Japanese. Vehicle size differences are not very great. What can you use in the 1990s to set yourself apart? I think fuel economy is going to be one of the issues.

Are the big U.S. companies doomed?
No, but I'm not sure Wall Street's going to be entranced with the results during the time needed. Remember how long it took to make GM Europe work—a decade. The same thing is going to happen in North America, particularly with GM. ■

Ready to give some money to charity? At this time of year you may be feeling generous. But don't touch that wallet! Before you shell out another dollar, take a look at how your favorite charity spends your money.

Charity checklist

By James Cook

Jean François Rauzier

DESPITE THE media chatter about greed, Americans are generous people. Last year they contributed $123 billion to an endless array of community and charitable activities—health research, art museums, protecting the environment, inhibiting drunk driving. This on top of the huge amounts they contribute to social welfare programs through their taxes.

It's well known that governments are inefficient users of this money, wasting much of it on bureaucracy. How about the private pro bono organizations? How efficient are they? In fact, they vary all over the lot. Most Americans are astonishingly indifferent to how effectively charitable organizations use the money that comes their way. The organizations themselves are no better. As they tend to see it, the righteousness of their cause assures the integrity of their conduct, and anyone who suggests otherwise had better watch out.

With the prime giving season coming up, this list is an attempt to provide a prospective donor with some statistical guidance in assessing the commitment and efficiency of 127 of the U.S.' leading charitable and cultural organizations. The statistics are imperfect, but not so imperfect that they don't throw up some warning signals.

Take the American Heart Disease Prevention Foundation of Fairfax, Va. Only 5% of the nearly $4 million it raised last year went to the programs for which the group was organized. A huge 90% went to the costs of fundraising. This includes 15% in professional fundraising fees, 18% in postage and shipping, and 15% to buy or rent mailing lists.

Direct public support $million	Direct public support as % of total revenue	Organization	Program commitment index* (%)	Fundraising efficiency index† (%)
$288	20%	American National Red Cross[5]	89%	92%
282	79	American Cancer Society (Group)[5]	42	82
214	79	United Jewish Appeal of New York	85	91
176	98	United Way of Tri-State	96	98
153	70	Nature Conservancy	73	88
152	40	Shriners Hospital (National)[5]	95	100
138	98	World Vision Inc[5]	70	79
137	98	Institute of International Education	97	100
136	51	American Heart Association (Group)[5]	79	76
124	88	Campus Crusade for Christ (Intl HQ)[3]	85	92
108	91	Muscular Dystrophy Association	67	79
93	99	United Way Crusade of Mercy (Chicago)	93	95
88	86	Christian Children's Fund	82	88
87	88	March of Dimes Foundation (Group)[5]	53	88
79	40	Metropolitan Museum of Art (NY)	92	98
78	86	American Lebanese-Syrian Associated Charities[5]	79	78
75	89	Jewish Federation Council Greater LA	84	89
73	89	Billy Graham Evangelistic Association	86	95
70	112[4]	Covenant House (National)[5]	23	78
64	67	Rotary Foundation of Rotary International	87	90
63	39	Christian Broadcasting Network	77	76
61	97	United Way National Capital Area	91	93
58	96	United Way Southeastern Michigan	90	93
55	53	Educational Broadcasting Corp	75	74
55	84	Disabled American Veterans[5]	70	65
53	98	United Way Southeastern Pennsylvania	2	93
52	57	Lincoln Center for the Performing Arts	89	98
50	44	Metropolitan Opera Association	88	84
46	94	Mothers Against Drunk Driving	70	75
42	86	United Negro College Fund	75	78

*Program services as a percent of total expenses. †Percent of direct public support remaining after fundraising. [1]Fiscal 1989. [2]Fiscal 1991. [3]Data from financial report. [4]Exceeds 100 because of accounting for extraordinary loss. [5]Unconsolidated data of national and affiliated groups may skew results. [6]Does not include organizations with no fundraising costs.

Direct public support $million	as % of total revenue	Organization	Program commitment index* (%)	Fundraising efficiency index† (%)
$41	46%	Save the Children Federation	84%	83%
41	62	Jewish Communal Fund of New York	99	100
38	17	Catholic Relief Services	92	87
35	76	Project Hope (People-to-People Health Fndn)	90	93
35	80	Greenpeace USA[1,5]	55	74
33	20	New York Public Library	89	86
32	79	Compassion International	84	89
32	93	Jewish Welfare Federation	88	91
31	11	CARE	92	59
30	75	National Merit Scholarship Corp	97	98
30	77	Combined Jewish Philanthropies (Boston)	83	94
29	68	Jewish Community Federation of Cleveland	87	94
28	11	Smithsonian Institution	96	87
28	91	Foster Parents (Plan International USA)[5]	76	84
25	24	WGBH Educational Foundation	79	71
24	37	March of Dimes Foundation (National)[5]	65	64
23	21	Art Institute of Chicago	67	86
23	57	Father Flanagan's Boys Home[5]	82	72
23	51	Planned Parenthood Federation of America[5]	64	72
22	78	American Friends Service Committee	75	88
22	47	United States Olympic Committee	80	75
22	82	Music Center of LA County[5]	87	91
22	84	North Shore Animal League	64	67
22	78	The Associated Jewish (Baltimore)[5]	92	93
21	37	City of Hope	75	75
21	73	United States Committee for UNICEF[5]	13	75
20	91	Statue of Liberty-Ellis Island Foundation	85	85
20	32	John F Kennedy Center	70	86
20	99	Amnesty International of the USA	66	71
18	36	Cystic Fibrosis Foundation (Group)[1,5]	30	89
17	84	Trust For Public Land	83	96
17	29	Museum of Modern Art (NY)	85	94
17	15	The New York Community Trust	87	98
16	51	Leukemia Society of America (Group)[5]	43	81
16	83	St Labre Indian School[2,3]	73	84
16	21	Museum of Fine Arts (Boston)	44	95
16	20	National Wildlife Federation[5]	86	70
15	19	National Gallery of Art	59	96
13	35	National Audubon Society[5]	72	78
13	42	Arthritis Foundation (National)[5]	69	75
13	87	Environmental Defense Fund	78	80
12	16	National Benevolent Association (Disciples)	89	74
12	42	Special Olympics International[5]	70	69
12	97	Oxfam-America	76	83
11	20	New York Zoological Society	90	78
11	16	Colonial Williamsburg Foundation[1]	71	79
11	29	Sierra Club[5]	66	54
10	16	American Museum of Natural History	83	91
10	97	American Civil Liberties Union Inc[1,5]	22	84
9	78	American Civil Liberties Union Foundation[1,5]	71	93

*Program services as a percent of total expenses. †Percent of direct public support remaining after fundraising. [1]1989 fiscal. [2]1991 fiscal. [3]Data from financial report. [4]Exceeds 100 because of accounting for extraordinary loss. [5]Unconsolidated data of national and affiliated groups may skew results. [6]Does not include organizations with no fundraising costs.

Most Americans are astonishingly indifferent to how effectively charitable organizations use the money that comes their way. The organizations themselves are no better. As they tend to see it, the righteousness of their cause assures the integrity of their conduct.

Our point is this: Since you probably have only a finite amount of money to give to worthy causes, you ought to know which among them will use your money most effectively. Hence these tables.

If you feel you need to know more, there are two organizations that were created to assess charitable management: the Council of Better Business Bureaus' Philanthropic Advisory Service in Arlington, Va. and the National Charities Information Bureau in New York City.

Arranged in order of revenues directly supplied by the general public, the FORBES list provides two basic indexes. The first is a Program Commitment Index: How much of the total funds that an organization spends, including funds from various other sources, goes to doing the job for which the organization was created. So a prospective donor may ask, how come the American Cancer Society (Group) commits only 42% of its spending to program services? Why does the Leukemia Society of America (Group) commit only 43% or Covenant House 23%?

There may be reasons for a low commitment ratio, not the least of which is that affiliated groups may be kicking funds up to the national organization, as the Cancer Society's local affiliates are. Or, vice versa, the national organization may be fundraising for its groups, as in the case of the American Diabetes Association (National). Such special cases aside, the Philanthropic Advisory Service considers 50% as an absolute minimum acceptable ratio of commitment to total receipts.

The second measure is an Efficiency Index: How much of the funds raised from the general public are

Direct public support $million	as % of total revenue	Organization	Program commitment index* (%)	Fundraising efficiency index† (%)
$9	61%	Boys & Girls Clubs of America (National)[5]	76%	83%
9	30	National Multiple Sclerosis Society[5]	69	59
9	29	Lighthouse (NY Association for the Blind)	86	86
9	83	Epilepsy Foundation of America	66	70
9	47	ASPCA	60	60
9	23	International Rescue Committee	93	90
9	33	Shriners' Hospital (Mass)[5]	100	100
8	61	Whitney Museum	78	90
8	32	Orange County Center (Performing Arts)[1]	65	83
8	27	Philharmonic-Symphony Society of NY	79	85
8	22	Population Council	88	98
8	48	Toledo Museum of Art (Ohio)	74	90
7	10	Zoological Society of San Diego[1]	72	89
7	28	Museum Associates (LA)	74	96
7	85	American Foundation for Aids Research	86	88
7	10	Children's Television Workshop	86	94
6	71	Sierra Club Legal Defense[5]	70	77
6	8	American Heart Association (National)[5]	86	45
6	37	United Service Organizations (World HQ)[1,5]	78	74
6	25	National Urban League	78	88
6	89	NAACP (Special Contributions Fund)	78	83
6	5	Legal Aid Society of New York	95	93
6	93	Sierra Club Foundation[5]	76	88
5	20	Museum of Science and Industry[1]	50	88
5	32	National 4-H Council[2]	82	88
5	48	YWCA of the USA National Board[5]	79	92
5	26	Walker Art Center	56	90
5	20	Field Museum of Natural History	67	53
5	24	New York Shakespeare Festival	82	87
4	16	American Diabetes Association (National)[5]	64	38
4	6	Guideposts Associates	92	50
4	28	MSPCA (Mass)	81	78
4	13	Children's Aid Society	89	85
4	5	Boy Scouts of America[5]	80	97
4	37	National Easter Seal Society[5]	84	76
4	11	United Way of America[5]	90	94
4	100	American Heart Disease Prevention Foundation	5	10
3	3	Devereux Foundation	92	85
3	35	Huntington Library & Art Gallery	79	89
3	21	United Charities (Chicago)	81	88
3	40	Helen Keller International	77	84
3	97	Friends of the Earth (Environmental Policy Inst)	84	91
3	56	Runyon-Winchell Cancer Research Fund	84	84
3	39	National Kidney Foundation[5]	88	87
2	4	Jewish Board Family and Children's Svcs	88	73
2	31	NAACP (National)[5]	81	90
2	6	Cystic Fibrosis Foundation (HQ)[1,5]	77	-39
4,497	—	Average[6]	76	82

*Program services as a percent of total expenses. †Percent of direct public support remaining after fundraising.
[1]1989 fiscal. [2]1991 fiscal. [3]Data from financial report. [4]Exceeds 100 because of accounting for extraordinary loss.
[5]Unconsolidated data of national and affiliated groups may skew results. [6]Does not include organizations with no fundraising costs.

How much money goes to fundraising? Take the American Heart Disease Prevention Foundation, for instance. Only 5% of the $4 million it raised last year went to the programs for which the group was organized. A huge 90% went to the costs of fundraising.

available for the organization's general purposes. By this measure, the American Heart Disease Prevention Foundation may be the worst, but it has some strong competition. Last year, after recovering its fundraising costs, the American Diabetes Association (National) had only 38 cents left out of every dollar. These low scores contrast with the group's average of 82 cents.

The indexes have their limitations. Because Cystic Fibrosis Foundation headquarters fundraises for its affiliates, for example, it spends more on fundraising than is received in direct public support, yielding a negative index. For organizations that depend heavily on government or other revenue sources—the American National Red Cross, say, or CARE—what it costs them to raise money from the general public is not the whole story. On the other hand, a few organizations seem to have no fundraising costs at all—the Shriners Hospitals, for instance—because their fundraising costs are handled on their behalf by their member affiliates.

Many large organizations do not appear on the list at all—some religious organizations, which are not required to report to the Internal Revenue Service, decentralized organizations such as the YMCA that do not consolidate their affiliated member organizations.

The statistical base of this survey is the Form 990 financial statements that tax-exempt organizations filed with the Internal Revenue Service for fiscal 1990 (unless otherwise noted), and which are no more reliable or consistent than the organizations that filed them.

The list was compiled by Reporter Brigid McMenamin. ■

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

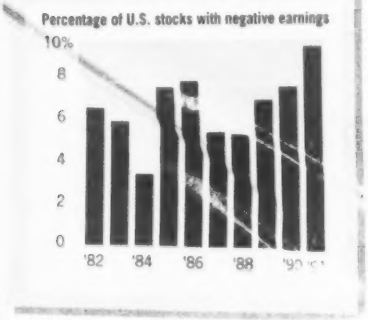
In today's richly priced market, investors have avidly bought stocks of industries that would benefit from an economic recovery. During the past two weeks railroads and trucking were among the best-performing industry factors, according to Barra.

To reflect a more complex economy, Barra does not divide stocks into traditional industry groups. Rather, it uses regression analysis to ascribe each stock's performance to one or more industry factors. That is, stock prices of companies with some or all of their revenues from railroading behaved as if investors were bullish on an underlying "railroadishness" factor.

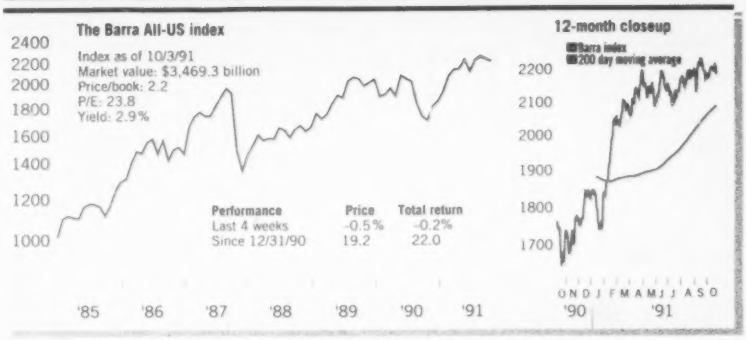
Railroads will reap the rewards of the cost-cutting they undertook during the recession, says Donaldson, Lufkin & Jenrette analyst Joel Price. George Morris of Prescott, Ball & Turben agrees, and adds that railroads should benefit from increased hauling of Russia-bound grain.

Special focus

Just how expensive is the market? The classic P/E formula omits all companies with negative or negligible earnings. By that formula, the average stock costs 16 times earnings. But Barra says it's not hard to get the moneylosers back into the equation: Just add up the market valuations of all publicly traded stocks and compare the total with the sum of all earnings, whether positive or negative. Including the moneylosers, the Barra trailing 12-month P/E is 24. This refinement is particularly relevant now that a large fraction of stocks are in the red.



The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-0.6%	25.5%	-2.3%
Sharpe/Barra Growth index[1]	-0.8	31.5	-2.9
Sharpe/Barra Value index[2]	-0.8	24.7	-2.5
Dow Jones industrials	-1.3	18.6	-2.3
S&P 500	-0.8	23.0	-3.1
NYSE	-0.5	23.6	-2.5
Nasdaq	-0.4	48.8	-1.5
Amex	1.2	21.1	-6.0
EAFE[3]	4.8	14.2	-16.6
CRB index[4,5]	-0.1	-9.7	-20.5
Gold[5]	2.6	-9.1	-28.9
Yen[5]	-2.8	-2.3	-20.4
Oil[5]	4.1	-38.7	-45.0

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Global Natural Resources	9 1/4	37%	$0.26	Medical Imaging Centers	5 1/8	-47%	$0.80
Video Lottery Technology	28	35	0.55	Comm Psychiatric Centers	15 5/8	-43	2.01
GEA	53 1/2	33	1.75	KnowledgeWare	13	-40	1.63*
Oracle Systems	14 1/8	30	0.38	RasterOps	14 7/8	-36	1.47*
HBO & Company	7 5/8	27	0.09	Cascade International	5 1/4	-33	0.58

The best and worst performing industry factors[6,8]

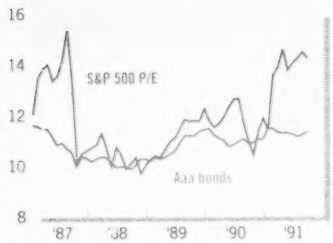
Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Railroads, transit	6.6%	44.8%	Aluminum	-7.0%	0.7%
[illegible]cious metals	5.8	-17.5	Iron and steel	-5.7	11.8
Truck[illegible], freight	5.2	26.1	Thrifts	-5.1	15.8
Media	3.7	11.9	Food retailing	-5.0	4.0
Electric utilities	3.1	22.7	Real estate	-4.6	17.5

Note: Data for period ending 10/3/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. *1992 estimate. Principal source: Barra, Inc., Berkeley, Calif.

WHAT THE ANALYSTS THINK

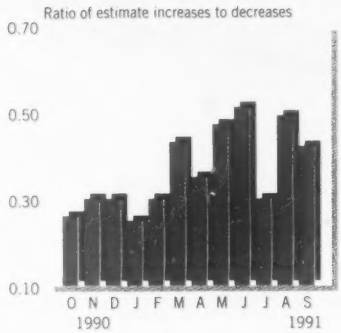
BY STEVEN RAMOS

S&P 500 P/E* vs. Aaa bonds†



*S&P 500 P/E is the recent price of the S&P 500 divided by estimated earnings over the next 12 months. †Projected price-to-coupon ratio for Moody's Aaa corporate bond index.

S&P 500 companies



Forecasting the S&P 500

Year	Estimated P/E	% change current vs. 3 months ago	Expected year-to-year EPS growth
1990	16.2	NA	–7%
1991	15.5	–4%	–5
1992	13.1	–2	29

1991 estimates for industry groups

Rising estimates	Falling estimates
furniture-apparel	airlines
containers	automobiles
auto parts	steel
housewares	electronics/semi-con
shoes	metals

Earnings estimates are often wide of the mark on individual companies, but their overall trend can signal when the market is moving into dangerous territory. That seems to be where the market is now. The graph on the top left shows the relationship between the estimated P/E on the S&P 500 and the projected price-to-coupon ratio for Moody's Aaa corporate bonds. In August the spread widened to 29%. That means equity holders are willing to pay 1.29 times as much as bondholders for each dollar of income, betting in essence that appreciation of the underlying equity will more than make up the difference. But that's a big gap. The last time the spread exceeded 30% was August 1987, just before the Oct. 19 crash. Moreover, analysts are expecting the S&P 500 to show a 5% decline in earnings in 1991, and the pace of estimate-slashing picked up again in September.

"We have been saying since April that investors should pull some of their chips off the table and not be so active in the equity markets," says Richard Pucci, a vice president of the Institutional Brokers Estimate Service.

Who's hot

Greatest increase in estimates over the past three months

Company/industry	1990 EPS	1991 estimate recent	1991 estimate 3-month change	P/E	3-month price change	Reason
Alex Brown/securities brokerage	$0.50	$2.22	51%	9	28%	Higher commission revenues and underwriting fees
Louisiana Pacific/forest prods	2.46	1.84	47	22	–5	Increased lumber shipments and stronger pricing
American President/maritime	–3.46	1.85	43	19	24	Improved volume and higher shipping rates
Whirlpool/household appliances	1.04	2.34	39	15	11	Strong performance from Brazilian operations
Affiliated Bankshares Col/banking	0.86	1.52	30	15	28	Higher net interest revenue and lower loan loss reserves

Who's not

Greatest decrease in estimates over the past three months

Company/industry	1990 EPS	1991 estimate recent	1991 estimate 3-month change	P/E	3-month price change	Reason
Cadence Design Sys/software	$1.19	$0.56	–54%	31	–6%	Slowdown in orders
Amax/metals	2.58	0.75	–51	26	–20	Lower aluminum prices
Citicorp/banking	0.57	0.60	–50	25	8	Higher loan chargeoffs and poor credit quality
Timken/machinery	1.85	0.66	–49	40	–2	Lower production volume
Pyramid Technology/computers	1.61	0.89	–48	19	–9	Rising dollar and slowdown in orders from computer dealers

Note: Companies listed have a market capitalization of $100 million or more. Earnings projections are Wall Street consensus estimates data from 3,000 security analysts compiled by the Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan Investment Services. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. NA: Not available.

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